

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AGRE-00 STRE-00 AID-05 CEA-01
CIAE-00 COME-00 EB-08 FRB-03 INR-10 NSAE-00 SP-02
TRSE-00 LAB-04 SIL-01 OMB-01 PA-01 ICA-11 ITC-01
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R 131752Z JUN 78
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 7239
INFO ALL EC CAPITALS
USMISSION GENEVA
AMEMBASSY ATHENS
AMEMBASSY MADRID
AMEMBASSY LISBON

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USEEC

PASS AGRICULTURE AND STR STARKEY ELECTRONICALLY

PARIS ALSO FOR USOECD

GENEVA ALSO FOR USMTN

E.O. 11652: N/A
TAGS: EAGR, EEC
SUBJ: TECHNICAL DISCUSSIONS ON EC PROCESSING SUBSIDIES
FOR FRUIT AND VEGETABLES

REF: (A) STATE 147392; (B) STATE 144539;
(C) BRUSSELS 10476; (D) BRUSSELS 10955

1. SUMMARY: THE U.S. AND EC HELD TECHNICAL DISCUSSIONS
ON JUNE 12 CONCERNING THE EC SUBSIDY PROGRAM FOR PROCESSED
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FRUIT AND VEGETABLES, PARTICULARLY WITH REFERENCE TO DRIED
PRUNES AND CANNED PEACHES. THE U.S. REGISTERED ALARM AND
CONCERN RE THE MAGNITUDE OF THE PROPOSED SUBSIDIES AND
THEIR IMPACT ON INTERNATIONAL TRADE AND ASKED THE PURPOSE
OF THE PROGRAM. WE NOTED THAT THE U.S. HAS GATT BINDINGS
ON DRIED PRUNES AND CANNED PEACHES. COMMISSION OFFICIALS
INDICATED THAT THEY DID NOT FORESEE AN "EXPLOSION OF

PRODUCTION" WHICH WOULD LEAD TO TRADE DISTORTION. ACCORD-
ING TO THEM THE PROGRAM IS MERELY BEING INTRODUCED TO
ENABLE COMMUNITY PRODUCERS TO COMPETE WITH IMPORTED
COMMODITIES. END SUMMARY.

2. THE U.S. AND THE EC HELD TECHNICAL DISCUSSIONS ON
JUNE 12, 1978 CONCERNING THE EC'S PROCESSING SUBSIDY
PROGRAM FOR FRUIT AND VEGETABLES. THE U.S. SIDE WAS
REPRESENTED BY SINDELAR (USDA), SCHROETER (USDA), REGAN
(STR) AND USEC OFFICERS MONTEL, MCCARTHY, AND SHARPLESS.
EC REPRESENTATIVES INCLUDED TERENCE WINDLE, ALEIDA
OUAFI, AND ALBERTO STOCCHI (DG VI) AND JACOBUS AARTS
AND LUCIANO COA (DG I).

3. THE U.S. (SINDELAR) OPENED THE MEETING BY THANKING
THE COMMISSION FOR HAVING ACCEPTED OUR REQUEST FOR THE
TECHNICAL DISCUSSIONS AND REGISTERED U.S. CONCERN OVER
THE HIGH LEVEL OF THE PROPOSED PROCESSING SUBSIDIES FOR
FRUIT AND VEGETABLES, PARTICULARLY WITH REFERENCE TO
DRIED PRUNES AND PEACHES. WE (A) EMPHASIZED OUR GATT
BINDINGS ON THESE COMMODITIES, (B) SOUGHT ASSURANCES
THAT THE SUBSIDIES WOULD NOT ADVERSELY AFFECT OUR TRADI-
TIONAL TRADE PATTERNS, AND (C) POINTED OUT THE IMPORT-
ANCE OF THE EC MARKET TO U.S. EXPORTS OF THE COMMODITIES
CONCERNED. WE SAID THE U.S. DOES NOT OPPOSE THE
PROCESSING SUBSIDY PROGRAM PER SE, BUT THE U.S. GOVERN-
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MENT, TRADERS, PROCESSORS, THE U.S. CONGRESS, AND
EUROPEAN IMPORTERS HAVE REGISTERED ALARM OVER THE
MAGNITUDE OF THE ALLEGED LEVEL OF SUBSIDIES.

4. IN RESPONSE TO QUESTIONS POSED BY THE U.S., RE THE
PURPOSE AND OPERATION OF THE SUBSIDY PROGRAM AND ITS
TRADE IMPACT, WINDLE EXPLAINED THAT THE PURPOSE OF THE
PROGRAM IS TO BRING THE SELLING PRICE OF COMMUNITY
PRODUCTS DOWN TO THE PREVAILING MARKET PRICE OF IMPORTS,
EXCLUSIVE OF IMPORT DUTIES. IN EXPLAINING THE OPERATION
OF THE SUBSIDY PROGRAM, WINDLE SAID THAT THE AMOUNT OF
THE SUBSIDY WOULD BE THE DIFFERENCE BETWEEN THE F.O.B.
SHIPPING POINT PRICE FOR COMMUNITY PRODUCTS AND THE CIF
PRICE FOR IMPORTED PRODUCTS. THE MINIMUM PRICE TO
GROWERS WOULD CONSIST OF LAST YEAR'S GROWERS' PRICE PLUS
5 - 1/2 PERCENT TO ACCOUNT FOR INCREASED PRODUCTION
COSTS. HE SAID THAT LAST YEAR'S GROWER PRICE FOR FRENCH
PRUNES WAS 6.20 FF/KG FOR PRUNE SIZE 66/500 GRAMS.
WINDLE INDICATED THAT HE DID NOT FORESEE AN EXPLOSION
OF EC PRODUCTION NOR ANY DISTORTION OF TRADE AS A
RESULT OF THE SUBSIDY PROGRAM. HE FELT THAT ANY CHANGE
IN MARKET SHARES WOULD COME FROM CHANGES IN COMPETITIVE

POSITIONS OF THIRD COUNTRIES. HE ALSO SAID THAT FRENCH PRUNE CONSUMPTION HAD SUBSTANTIALLY INCREASED IN RECENT YEARS DUE TO A SUCCESSFUL PROMOTION PROGRAM. THE FRENCH ARE NOW GEARING PUBLICITY TOWARD GERMANY AND THE U.K. WITH HOPES OF EXPANDING EXPORTS TO THOSE COUNTRIES. REGARDLESS OF A POTENTIAL INCREASE IN FRENCH PRODUCTION, WINDLE FEELS THAT PRESENT THIRD COUNTRY SUPPLIERS WILL MAINTAIN THEIR SHARE OF THE MARKET. HE FURTHER POINTED OUT THAT THE EC REGULATION IMPLEMENTING THE PROGRAM (REF D) INCLUDES PROVISIONS FOR LIMITING THE QUANTITY OF PRODUCT BENEFITING FROM SUBSIDIES IF AN IMBALANCE SHOULD OCCUR WITHIN THE COMMUNITY. HE EXPLAINED THAT THIS PROVISION WAS INSERTED PRIMARILY WITH GREECE AND SPAIN IN MIND. WE ASKED IF THE SUBSIDY PROGRAM WOULD BE ADJUSTED LIMITED OFFICIAL USE

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AFTER EC ENLARGEMENT. WINDLE INDICATED THAT IT IS HIGHLY UNLIKELY THAT THE SYSTEM WOULD BE FULLY APPLIED TO NEW MEMBER STATES DURING THE TRANSITIONAL PERIOD.

5. THE U.S. AGAIN STRESSED CONCERN ABOUT THE MAGNITUDE OF THE ALLEGED LEVEL OF SUBSIDIES AND SPECIFICALLY ASKED WINDLE IF OUR UNDERSTANDING OF THEIR LEVELS WAS ACCURATE. WINDLE SAID THE AMOUNTS OF THE SUBSIDIES HAD NOT YET BEEN FIXED BUT THOSE UNDER CONSIDERATION BY THE COMMISSION ARE OF THE SAME MAGNITUDE AS MENTIONED BY US. WE ASKED WHICH THIRD COUNTRY PRICES WOULD BE USED AS AN ELEMENT IN FIXING THE AMOUNT OF THE SUBSIDY (PARA 5, REF D). WINDLE LIMITED OFFICIAL USE

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SAID THAT FOR PRUNES, THE BASIS WOULD BE THE FREE-AT-FRONTIER PRICE (THAT IS, EX DUTY) OF CALIFORNIA PRUNES ENTERING FRANCE BECAUSE U.S. PRUNE PRICES ARE HIGHER IN FRANCE THAN IN OTHER EC COUNTRIES. "PRICES OBTAINING IN INTERNATIONAL TRADE" WOULD BE THOSE OBTAINING ON REPRESENTATIVE, OPEN FREE IMPORT MARKETS SIMILAR TO THE EC MARKETS.

6. WE NOTED THAT THE PROCESSING SUBSIDY SYSTEM ABOLISHED THE MINIMUM IMPORT PRICE SYSTEM FOR TOMATO CONCENTRATES, WHICH WAS A BASIC ELEMENT OF PROTECTION, AND ASKED WHAT THE COMMISSION'S PLANS WERE REGARDING LICENSING. WINDLE REPLIED THAT IMPORT LICENSES ARE USED SOLELY TO MONITOR IMPORTS AND WILL BE CONTINUED, BUT THAT WITH THE SUBSIDY SYSTEM, THE NEED FOR SUCH MONITORING MAY BECOME LESS EVIDENT. THEREFORE, THE COMMISSION MAY POSSIBLY WANT TO EXAMINE THE NEED FOR CONTINUATION OF THE LICENSING SYSTEM SOMETIME DOWN THE ROAD.

7. WE REPEATED THE CONCERN OF U.S. PRUNE INDUSTRY WITH THE INTRODUCTION OF LICENSING SYSTEM PARTICULARLY WITH REFERENCE TO POSSIBLY INVOKING SAFEGUARD MEASURES. WINDLE SAID HE COULD NOT IMAGINE THE COMMISSION USING SAFEGUARD MEASURES NOW THAT THE SUBSIDY PROGRAM HAS BEEN INTRODUCED.

8. DURING COURSE OF DISCUSSIONS, WINDLE MADE TWO GENERAL COMMENTS OF INTEREST:

A. THE PRESENT SCHEME IS PART OF AN OVERALL EC EFFORT TO REDRESS THE BALANCE OF SUPPORT BETWEEN NORTHERN AND SOUTHERN AGRICULTURE IN THE COMMUNITY, AND

B. THE COMMISSION'S GENERAL POLICY IS NOT TO ENCOURAGE

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EXPANSION IN FRUIT AND VEGETABLES SECTORS WHICH HAVE BEEN UNDER STRESS, BUT TO ENCOURAGE PRODUCTION IN DEFICIENT SECTORS, SUCH AS LIVESTOCK IN ITALY.

9. IN CONCLUDING THE MEETING, WINDLE REQUESTED U.S. LANDED PRICES FOR PRUNES ENTERING FRANCE, INDICATING THAT THIS INFORMATION WOULD BE USEFUL TO THE COMMISSION IN DETERMINING MORE ACCURATE SUBSIDY LEVEL(S). WE DELIVERED THESE DATA TO HIM ON JUNE 13. HE EXPECTS THE MANAGEMENT COMMITTEE TO TAKE A DECISION ON THE LEVEL OF SUBSIDIES ON JUNE 16.

10. THE U.S. NOTED ITS APPRECIATION FOR THE OPPORTUNITY TO EXCHANGE VIEWS WITH THE COMMISSION, BUT REMAINED SKEPTICAL RE INTERFERENCE WITH OUR TRADITIONAL TRADE. WE SAID WE INTENDED TO MONITOR THE SITUATION CLOSELY IN LIGHT OF OUR GATT BINDINGS AND NOTED WE MAY HAVE THE OPPORTUNITY TO MEET AGAIN ON THE MATTER. HINTON

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